

William G. Clark, Director New Jersey Division of Investment November 19, 2009



Outline

- Summary of Market Environment
- Portfolio Actions During FY09
- FY09 Performance
- Performance by Asset Class
- FY 2010 So Far
- Concluding Thoughts

Market Returns for FY 2009 Ending June 30, 2009

	<u>1 Year</u>	3 Years	5 Years
US Equities			
S&P 1500 Index	-26.34	-8.23	-1.97
International Equities			
MSCI EAFE ex-prohibited	-31.17	-8.14	2.20
Emerging Markets Equities			
MSCI Emerging Markets Index	-25.23	3.56	14.88
Investment-Grade Bonds			
Barclays US Treasuries Index	6.47	7.41	5.46
Barclays Corporate Index	3.84	4.49	3.82
Barclays Mortgage Backed Index	9.38	7.86	5.98
High Yield Bonds			
Barclays High Yield Index	-2.43	2.09	4.33

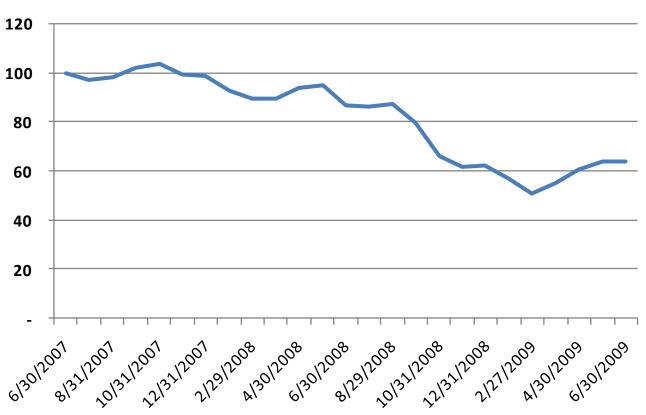
Market Returns for FY 2009 Ending June 30, 2009

	<u>1 Year</u>	3 Years	5 Years
Commodities			
DJUBS TR Index	-47.09	-8.30	-0.23
Private Equity*	-22.00	3.00	12.17
Real Estate			
NCREIF Property Index	-19.57	0.98	7.66
Hedge Funds			
HFRI Funds of Funds Index	-15.24	-1.13	2.62
Cash			
90 Day US T-Bill Index	0.80	3.04	3.02

These returns do not fully capture the impact of the "shock" to the financial markets and the economy.

The return on US stocks for FY09 was the lowest since 1932



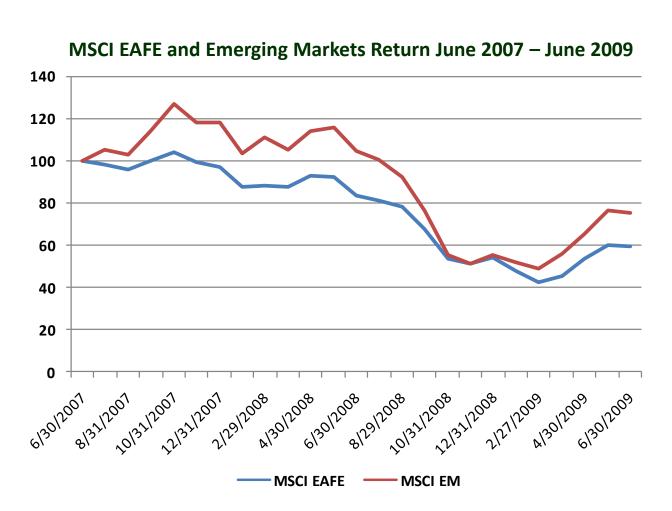


More importantly, the ten year annualized return on stocks was negative for the first time since the 1930's

S&P 500 Index Rolling Ten Year Return



Emerging market equity returns were slightly better than global equities because of the weakening U.S. dollar and the superior financial position of many emerging markets countries

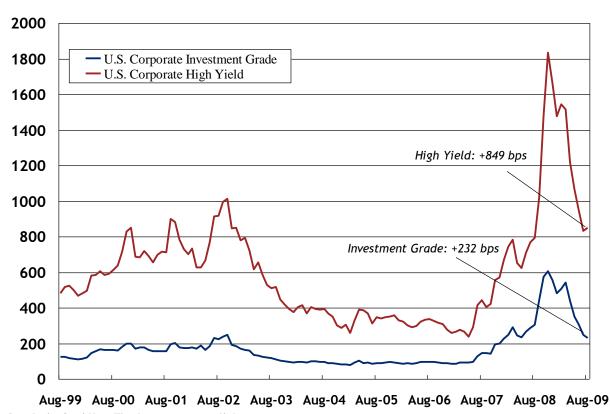


М

The credit markets were hit even harder by the "seizing up" of the global financial system

Incremental Yields on U.S. Corporate Bonds vs. U.S. Treasuries 1999 - 2009

Option Adjusted Spread (bps)

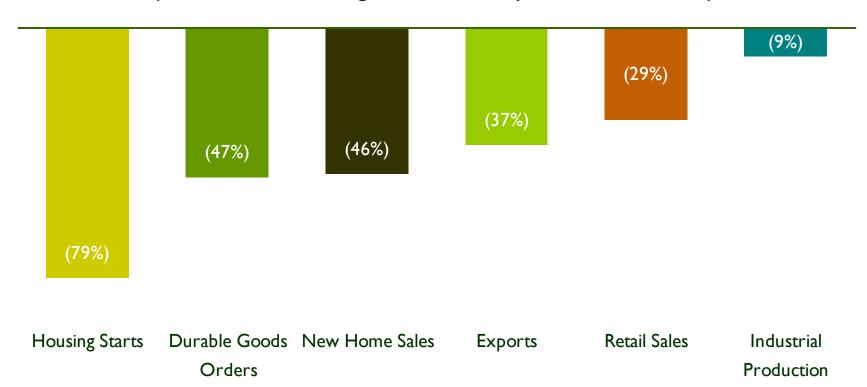


Source: Barclays Capital; History Through August 31, 2009, monthly data



The market was reacting to the economy falling off a cliff

(3-Month Percent Change Annualized, September to December)



Source: U.S. Census, Bureau of Economic Analysis, Gluskin Sheff

"This really is an economic Pearl Harbor. That sounds melodramatic, but I've never used that phrase before. And this really is one."

Warren Buffett, October 1, 2008, PBS "The Charlie Rose Show"

How did the consumer respond?

The New York Times

"The long-feared capitulation of American consumers has arrived"

— October 31, 2008







r

How did the consumer respond?



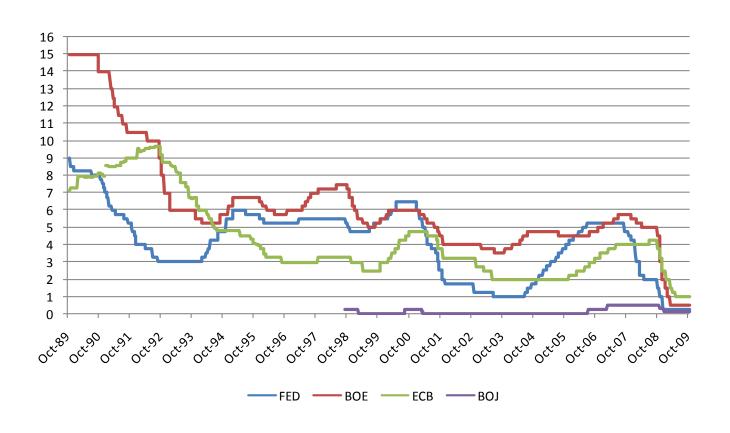
"Something is definitely going on. We're back to eating dog food."



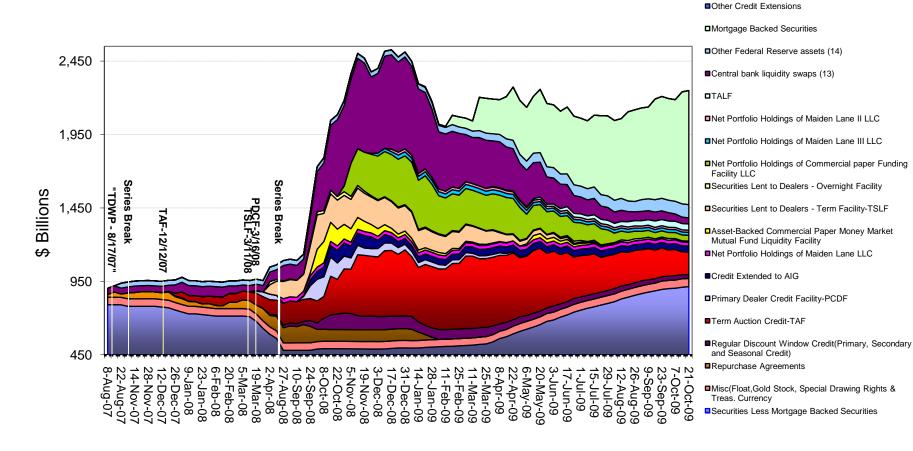
What Brought the Global Financial Markets Back From the Brink

- Monetary Stimulus
- Fiscal Stimulus
- Other Government Intervention

The Federal Reserve and other Central Banks cut short-term interest rates to unprecedented levels

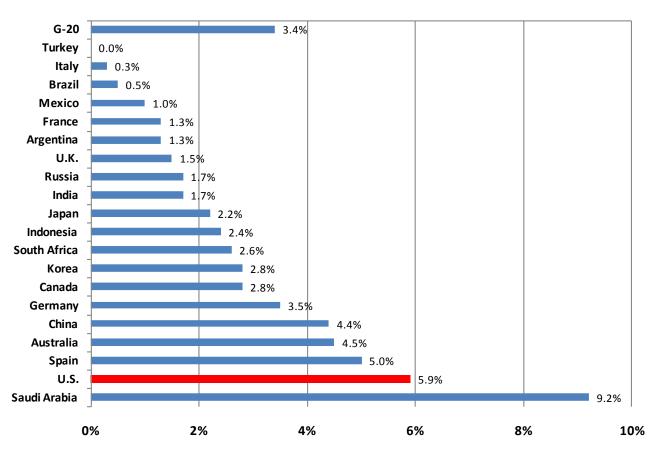


The Federal Reserve also increased its balance sheet as a means to inject liquidity into the financial system



Both developed and emerging countries injected massive amounts of fiscal stimulus into their economies

Fiscal Stimulus as a % of GDP



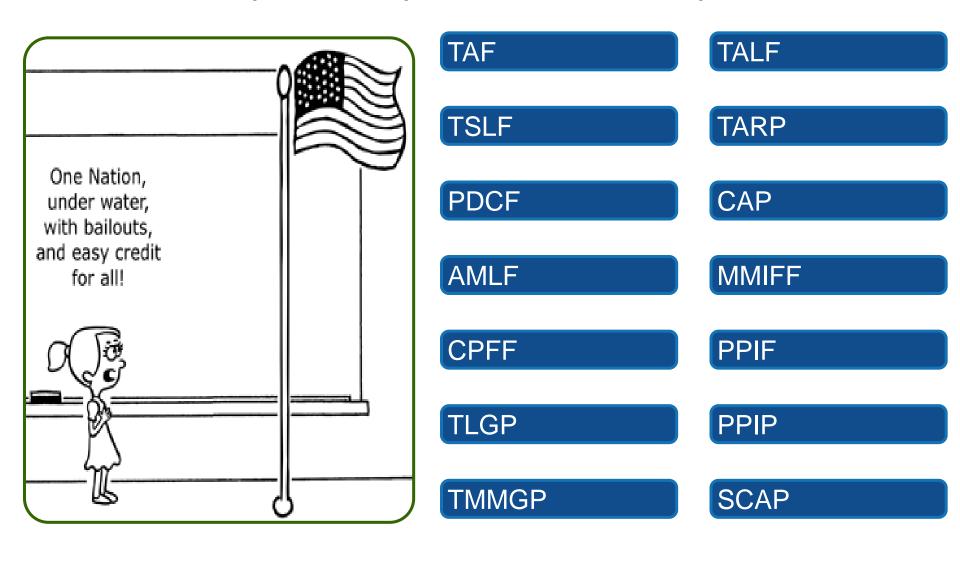


Various other steps taken by the government also helped to unfreeze the financial market

- TARP related capital infusions into systemically important financial institutions
- Increase in FDIC deposit insurance limits
- Extension of FDIC guarantees to inter-bank loans and to certain public debt issuances

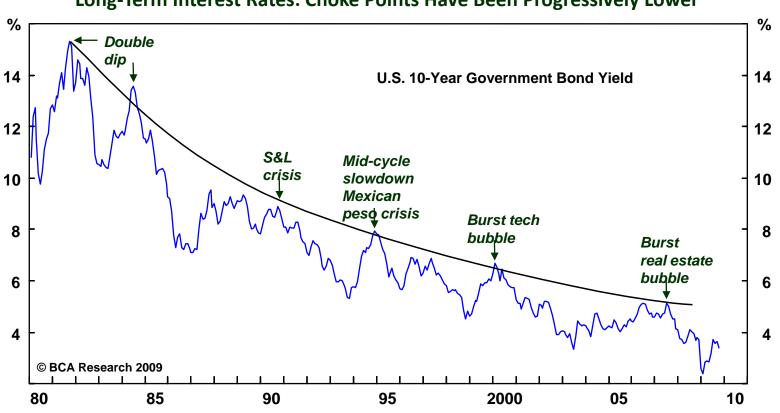
r.

The "Alphabet Soup" of Government Responses



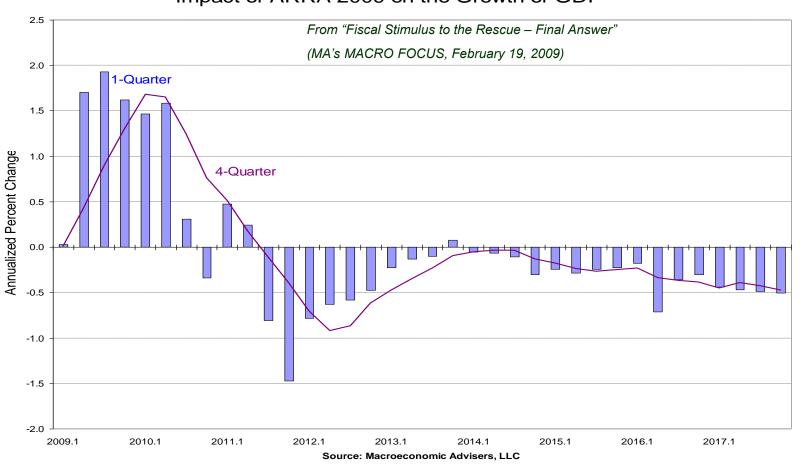
Concern #1: Is the U.S. Economy becoming too dependent on monetary stimulus?

Long-Term Interest Rates: Choke Points Have Been Progressively Lower

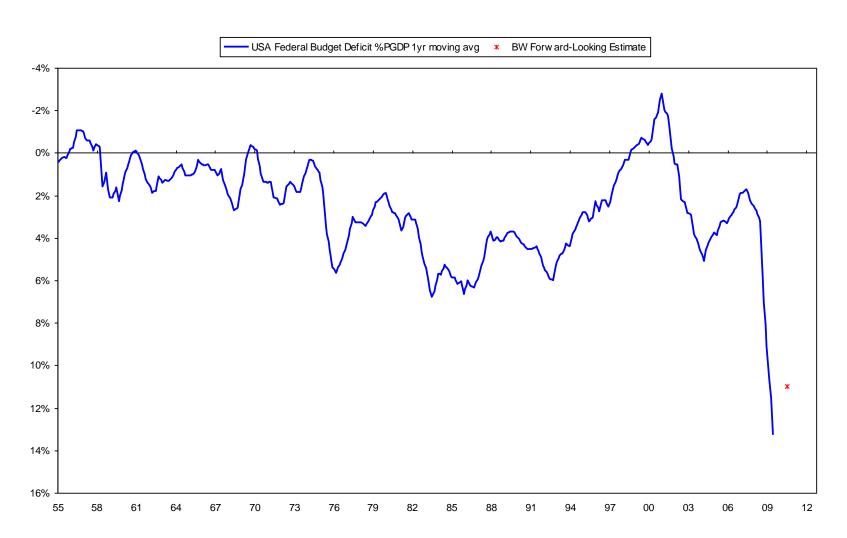


Concern #2: After the fiscal stimulus wears off, then what?

Impact of ARRA 2009 on the Growth of GDP



Concern # 3: The level of fiscal stimulus is unprecedented and unsustainable

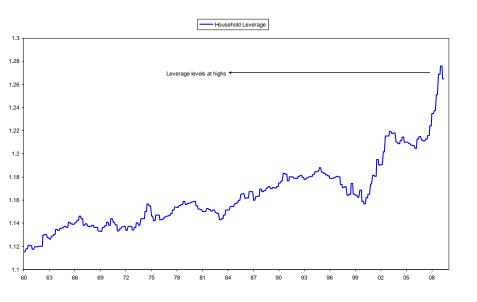


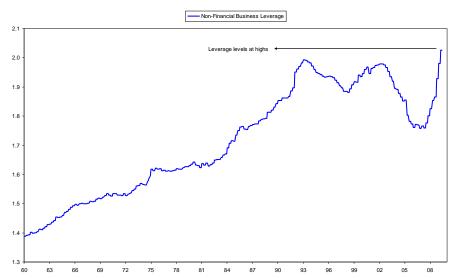
How much more debt can the Government issue?



v

Concern # 4: The debt levels of both U.S. consumers and businesses remain at all-time high

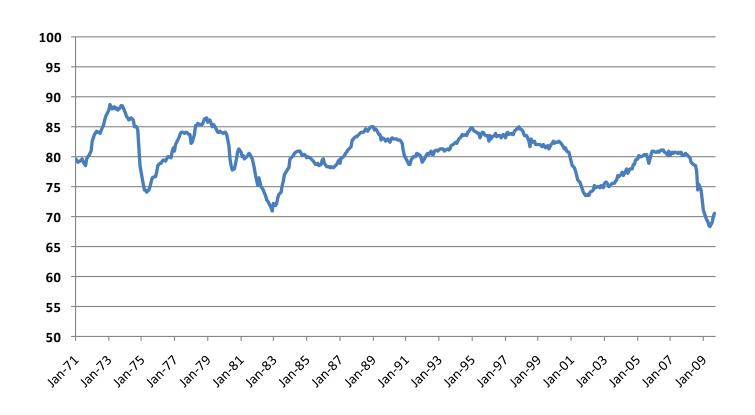




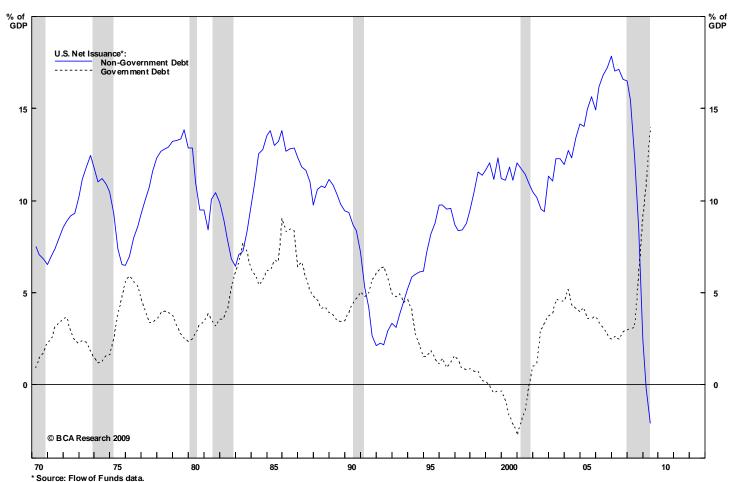
Concern # 4: Growth in consumer spending is likely to remain low as the savings rate rises



Concern # 5: Growth in capital spending will be impacted by the spare production capacity already in the system



Policy objective is to replace private sector debt with public sector borrowing to maintain an "acceptable" level of growth while U.S. consumers and businesses continue to "delever"

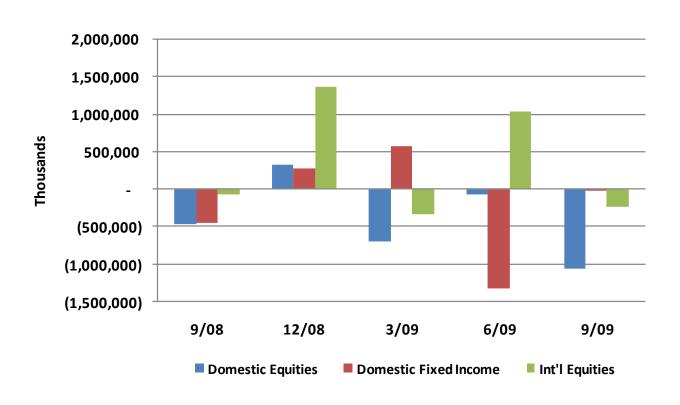


Note: Shaded areas represent NBER-designated periods of recession.

Change in New Jersey's Portfolio During FY 2009

Asset Class	June 08	June 09	Difference
US Equities	30.8%	25.9%	-4.9%
International Equities	17.4%	17.4%	0.0%
Emerging Markets Equities	1.4%	1.9%	0.5%
US Fixed Income	24.1%	29.3%	5.2%
US High Yield	0.9%	2.4%	1.5%
International Fixed Income	2.7%	0.1%	-2.6%
Commodities/Real Assets	1.2%	1.0%	-0.2%
TIPS	4.5%	5.2%	0.7%
Private Equity	3.4%	4.6%	1.2%
Real Estate	2.4%	2.8%	0.4%
Absolute Return	4.2%	4.3%	0.1%
Cash	7.0%	5.1%	-1.9%
Actual \$ Millions	\$78,201	\$63,179	

FY 2009 Net Purchases/Sales by Quarter





Notable portfolio moves during FY 2009

- Purchase of \$2.5 billion of investment grade corporate bonds in August 08 –
 March 09. Result: Up 21% from November 08 June 09
- Made additional investments of \$243 million in several bank loans funds in October 08 in response to margin calls to prevent forced liquidation of nearly \$750 million in positions. Result: Up 19% from October 08 – June 09
- Bought \$2.6 billion in Japanese equities as a means to capitalize on a likely global economic recovery. Result: Too early to tell
- In January 2009 cancelled five commitments totaling \$365 million to private equity and real estate funds and redeemed \$200 million from two hedge fund investments. Result: Preserved liquidity to take advantage of better opportunities in other asset classes

Estimated FY 2009 Performance

Asset Class	Actual	Benchmark	Difference
US Equities	-22.84	-26.34	3.5
International Equities	-31.17	-31.17	0
Emerging Markets Equities	-28.37	-25.40	-2.97
US Fixed Income	6.64	7.38	-0.74
US High Yield	10.38	-2.40	12.78
Mortgages	12.35	9.38	2.97
International Fixed Income	19.73	8.54	11.19
Commodities	-43.03	-47.09	4.06
TIPS	-3.99	-1.12	-2.87
Private Equity*	-25.89	-25.20	-0.69
Absolute Return	-17.70	-13.02	-4.68
Real Estate*	-32.38	-15.16	-17.22
Cash	1.58	0.80	0.78
Overall Portfolio	-14.20	-16.47	2.27

^{*} Returns are through 3/31/09



The Division also exceeded its respective benchmarks in each of its internally managed portfolios over the previous 3 and 5 year periods as well

Annualized Returns

	1-Year	3-Years	5-Years
US Equities	-22.84	-5.80	-0.15
Benchmark	-26.34	-8.18	-1.94
International Equities	-23.98	-3.89	4.71
Benchmark	-31.17	-8.14	2.20
US Investment Grade Fixed Income	6.64	7.02	5.52
Benchmark	7.38	6.19	4.85



For FY 2009, New Jersey was the top performing fund in the country

State Fund	FY 09 Estimated Performance
New Jersey DOI	-14.2%
CalSTRS	-25.0%
Florida	-19.0%
Illinois Teachers	-22.3%
North Carolina	-14.2%
Ohio Teachers	-21.7%
Pennsylvania School Employees	-26.5%
Texas Teachers	-21.9%
Wisconsin SIB	-17.7%

Average of 44 State Funds that have reported FY09 results -19.6%



Over the longer term, New Jersey has consistently out-performed its peer group

	1 Year	3 Years	5 Years
New Jersey	-14.20%	-0.73%	3.16%
Wilshire TUCS Category			
All Master Trusts	-17.00%	-2.51%	2.06%
Public Funds	-17.06%	-2.69%	2.19%
All Master Trusts with Assets > \$1 billion	-18.13%	-2.60%	2.45%
Public Funds with Assets > \$1 billion	-18.76%	-2.69%	2.36%
All Master Trusts with Assets > \$5 billion	-18.76%	-2.47%	2.64%
Public Funds with Assets > \$5 billion	-18.76%	-2.77%	2.41%

Note: Outperformance of 1% for one year equates to \$700 million in portfolio value



Putting the Year in Perspective The Division had minimal or no exposure to.....

Debt

- Subprime Mortgage Securities
- Non-agency Mortgage Backed Securities
- □ CDOs
- Asset Back Commercial Paper/SIVs
- Student Loan Paper

Equities

- ☐ Mortgage Brokers
- Monoline Insurers
- ☐ Student Loan Issuers
- ☐ Thrifts/S&L's
- □ Auto Makers (GM/Ford)
- Freddie Mac/Fannie Mae Common Stock
- Rating Agency Stocks (Moody's & McGraw Hill)
- Bear Stearns

S&P 500 FY 2009 Returns by Sector

Sector	S&P 500 FY09 Returns
Consumer Discretionary	-16.60
Consumer Staples	-10.20
Energy	-41.34
Financials	-37.33
Health Care	-11.49
Industrials	-34.47
Information Technology	-18.03
Materials	-38.79
Telecommunication Services	-19.24
Utilities	-28.23
Total	-25.82

Energy, Materials and Financials were the biggest drag on the market. We were significantly underexposed to financials for the entire fiscal year.

For FY 2009 "Success" was defined by "Dodging Bullets"

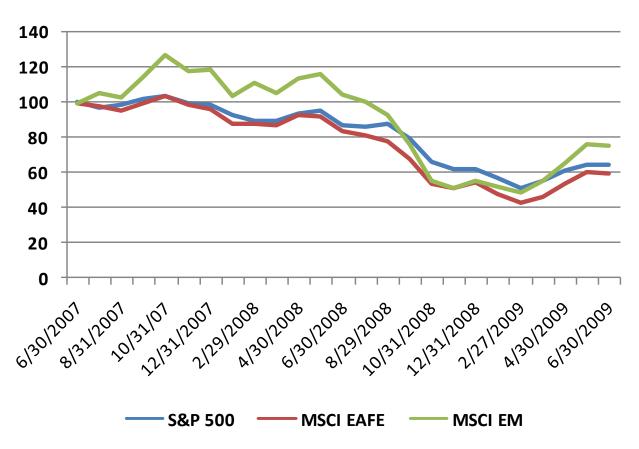
	# of Stocks in DOI Universe	%	Exam	nples
Down >50%	420	20.7%	Lehman Washington Mutual FNMA/FHLMC Citigroup	GM Liz Claiborne Alcoa CBS
Down 25% - 50%	545	26.8%	Chevron Bank of America	Monsanto Medtronic
Down 0% - 25%	605	29.8%	Exxon Mobil Procter & Gamble	Microsoft Johnson & Johnson
UP	463	22.7%	JP Morgan Chase Wells Fargo	Oracle McDonald's

MSCI EAFE ex-Prohibited FY 2009 Returns by Sector

Sector	MSCI EAFE ex-Prohibited FY09 Returns
Consumer Discretionary	-22.54
Consumer Staples	-18.15
Energy	-32.72
Financials	-36.25
Health Care	-19.34
Industrials	-32.71
Information Technology	-29.84
Materials	-44.62
Telecommunication Services	-21.99
Utilities	-29.98
Total	-30.85

Energy, Materials and Financials were also the worst-performing sectors in the international markets. We were significantly under-exposed to Financials in this portfolio as well.

Emerging market equities rebounded the most in 2009. We are evaluating whether it makes sense to increase our very small exposure to this asset class.



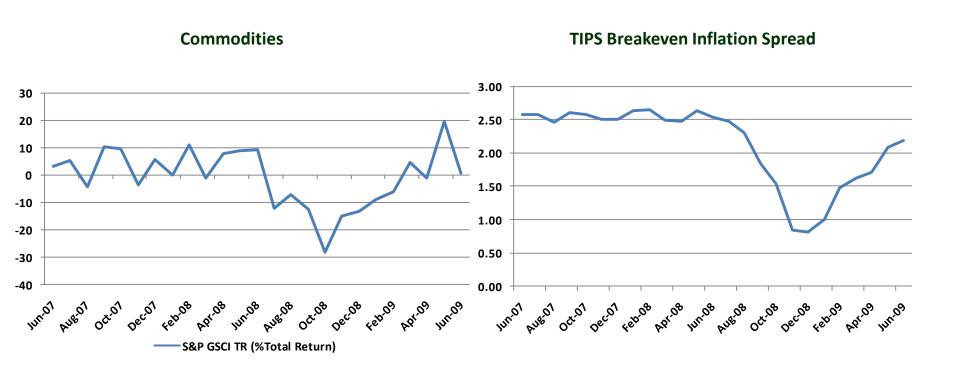
М

Domestic Fixed Income: Participating in the significant turn in High Grade and High Yield Credit was the key to strong performance

FY 2009 Performance by Quarter

	Barclays Long Govt/Credit	Barclays Long Treasuries	Barclays Long Credit	Barclays High Yield
July - Sept	-3.40	2.82	-8.78	-8.89
Oct - Dec	13.06	18.66	8.16	-17.88
Jan – March	-6.16	-5.23	-6.94	5.98
April - June	2.78	-7.14	12.93	12.07

While inflation does not seem to be an imminent threat, both Commodities and TIPS have rebound nicely from their lows in the Fall of 2009

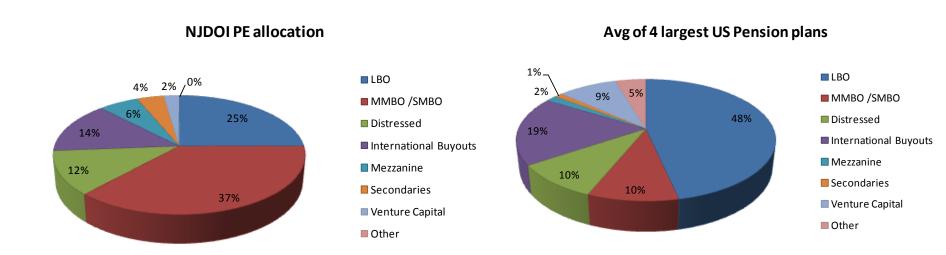


New commitments to Private Equity have slowed in 2009



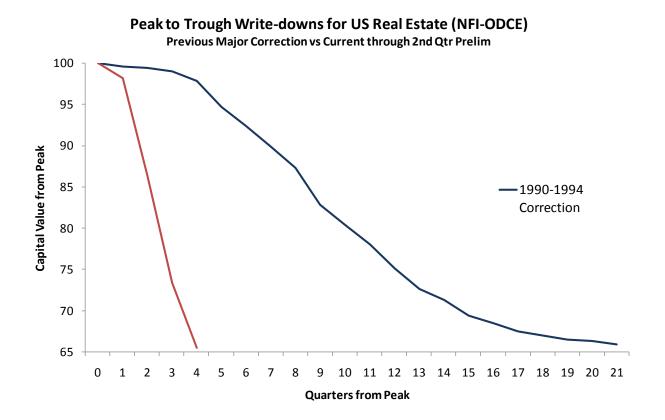
While total 2008 fundraising remained strong, there were significantly fewer commitments in 1H 2009 as the broader market went through a downturn

Private Equity: While recent performance has been disappointing, our portfolio is significantly under exposed to the mega-buyout funds, which were the worst-performing sector of the market



Real Estate: The pace of the current correction is unprecedented

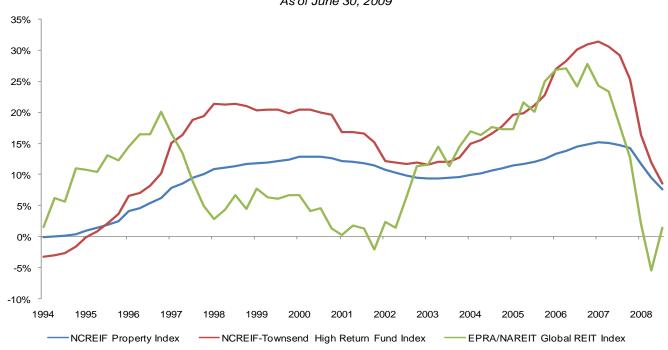
Cumulative write-downs over the last three quarters equals five years of the 1990's downturn



Long-Term Real Estate Indices

- All sectors show a material correction
- The premium for taking risk has evaporated (traditional core now outperforming)

Real Estate Indices - Rolling Five Year Returns As of June 30, 2009



Source: The Townsend Group



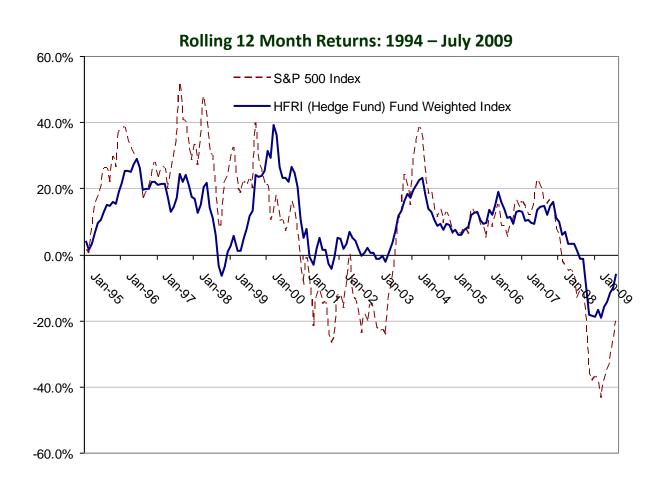
Hedge Funds have rebounded in 2009 as liquidity and market conditions improved

Hedge Fund Performance %

Hedge Fund Style	July – December 08	January – June 09
Fund of Funds	-19.36	4.27
Credit - Other	-33.13	7.95
Credit - Loan Funds	-47.11	50.38
Distressed	-16.75	14.12
Event Driven	-21.09	9.06
Equity Long/Short	-21.69	14.48
Multi-Strategy	-26.42	12.74
	<u> </u>	<u> </u>

М

Over The Long Run, Hedge Funds Have Experienced Lower Volatility Than Public Equities



FY 2010 So Far

Asset Class	June 09 (\$mm)	September 09 (\$mm)
US Equities	16.4	17.6
International Equities	11.0	12.8
Emerging Markets Equities	1.2	1.2
US Fixed Income	18.5	19.2
US High Yield	1.5	1.7
International Fixed Income	0.0	0.0
Commodities/Real Assets	0.6	0.7
TIPS	3.3	3.7
Private Equity	2.9	3.1
Real Estate	1.8	1.6
Absolute Return	2.7	2.8
Cash	3.2	3.6
Total	63.2	68.2

FY 2010 Investment Performance Through September 30, 2009

Asset Class	Performance %	Benchmark %
US Equities	15.19	16.06
International Equities	19.30	20.03
Emerging Markets Equities	22.57	21.96
US Fixed Income	9.34	8.53
US High Yield	15.52	14.22
International Fixed Income	6.07	2.03
Commodities/Real Assets	4.95	4.24
TIPS	2.79	3.08
Private Equity	NA	NA
Real Estate	NA	NA
Absolute Return	6.91	4.11
Cash	0.14	0.04
Total	11.62	11.99



Current Division staff dedicated to internal management

	6/30/2009 Investment Amount (\$mm)	Investment Professional FTEs*	Asset Per Investment Professional (\$mm)
Cash Management	14,563	2.5	5,825
Domestic Fixed Income	21,832	1.5	14,555
Subtotal – Fixed Income	36,395	4.0	9,099
Domestic Equity	16,351	8	2,044
Int'l Equity	11,022	4	2,756
Subtotal – Public Equity	27,373	12	2,281
Total	63,768	16	3,986

[•]Excludes Director and Deputy Director Figures are unaudited and are subject to change